

Message Text

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63

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-01 INT-05 GSA-01

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P 191355Z MAR 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 9670

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E.O. 11652: N/A

TAGS: EIND, CS

SUBJECT: STATUS OF ALUMINUM AND COPPER PROJECTS

1. ALCOA'S REPRESENTATIVE IN COSTA RICA, BILLY MCNISH, WILL HAVE AN IMPORTANT SERIES OF MEETINGS THIS WEEK WITH THE COSTA RICAN GOVERNMENT'S ALUMINUM COMMISSION AT WHICH IT IS HOPED THAT THE GOVERNMENT WILL MAKE KNOWN ITS IDEAS ABOUT POSSIBLE ARRANGEMENTS FOR MOVING FORWARD ON THE BORUCA ALUMINUM PROJECT AND ON ALCOA'S COPPER PROJECT. MCNISH WILL BE ASSISTED BY TWO ATTORNEYS FROM ALCOA'S HEADQUARTERS IN THE U.S., ASSISTANT GENERAL COUNSEL HARRY FAUCET, AND A MR. TECLINBURG, WHO WILL ARRIVE ON MARCH 19. THE MINISTER OF ECONOMY, JORGE SANCHEZ, WHO IS ALSO PRESIDENT OF THE ALUMINUM COMMISSION, WILL HEAD THE COSTA RICAN NEGOTIATING TEAM.

2. BOTH THE COPPER AND THE ALUMINUM PROJECTS HAVE BEEN STALLED FOR SOME MONTHS APPARENTLY WHILE THE GOVERNMENT WAS TRYING TO DECIDE HOW IT WOULD LIKE TO PROCEED.

ALCOA'S PRESENT CONTRACT WITH THE COSTA RICAN GOVERNMENT
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GIVES IT THE RIGHT TO DEVELOP BAUXITE PRODUCTION AND

PRODUCE ALUMINA FOR EXPORT, BUT THE CONTRACT WOULD HAVE TO BE AMENDED OR SUPERSEDED BY A NEW CONTRACT TO PERMIT MOVING AHEAD ON THE ENTIRE BORUCA PROJECT, WHICH AS NOW CONTEMPLATED WOULD INCLUDE HYDROELECTRIC POWER AND A LARGE ALUMINUM SMELTER. RE COPPER, ALCOA HAS HAD APPLICATIONS FOR EXPLORATION CONCESSIONS PENDING FOR SOME TIME BUT THE APPLICATIONS HAVE NEVER BEEN ACTED UPON, DESPITE LANGUAGE IN THE MINING LAW WHICH APPEARS TO REQUIRE THE GOVERNMENT TO APPROVE THEM.

3. SIGNALS RECEIVED THUS FAR FROM THE GOVERNMENT INDICATE THAT IT WOULD LIKE TO LINK TOGETHER THE COPPER AND ALUMINUM DEVELOPMENTS. MCNISH BELIEVES THAT THE GOVERNMENT WILL NOT PERMIT ALCOA TO MOVE AHEAD ON THE COPPER DEVELOPMENTS UNLESS IT ALSO AGREES TO PROCEED WITH THE ALUMINUM SMELTER. OBVIOUSLY THE TWO CANNOT CONSTITUTE A SINGLE PROJECT AS THE COPPER PROJECT IS ONLY AN EXPLORATION PROJECT, BUT ALCOA WOULD BE WILLING TO MOVE FORWARD ON BOTH IF ACCEPTABLE TERMS CAN BE NEGOTIATED (MCNISH SAYS THAT HE HAS ASSURED THE GOVERNMENT THAT NO COPPER HAS YET BEEN DISCOVERED, BUT THE GOVERNMENT APPEARS TO BE VERY OPTIMISTIC ABOUT COPPER POSSIBILITIES).

4. THERE ARE SEVERAL POSSIBLE ALTERNATIVE OUTCOMES THAT COULD EMERGE FROM A SUCCESSFUL NEGOTIATION:
1) A COPPER PROJECT (ALTHOUGH THIS IS UNLIKELY TO BE APPROVED AS NOTED ABOVE); 2) THE FULL BORUCA ALUMINUM PROJECT WITH CONCURRENT EXPLORATION FOR COPPER; OR,
3) COPPER EXPLORATION WITH A COMMITMENT TO MOVE FORWARD ON A PORTION OF THE ALUMINUM PROJECT SUCH AS BUILDING OF A SMELTER TO USE IMPORTED ALUMINA.

5. THE GOVERNMENT'S OBJECTIVES AND NEGOTIATING POSITIONS ARE NOT THE ONLY BARRIERS TO FORWARD MOVEMENT; THERE ARE ALSO PROCEDURAL COMPLICATIONS. THE LEGISLATIVE ASSEMBLY IS IN THE PROCESS OF ELIMINATING SO-CALLED "CONTRACT LAWS" WHICH ONCE NEGOTIATED BY THE EXECUTIVE AND APPROVED BY CONGRESS, SUPERSEDES OTHER LAW. A NEW DEAL WITH ALCOA, THEREFORE, MIGHT BE A SIMPLE CONTRACT WITH THE CURRENT GOVERNMENT WHICH WOULD HAVE GREAT LIMITED OFFICIAL USE

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DISADVANTAGES FOR THE COMPANY IN A LONG-TERM PROJECT BECAUSE IT WOULD NOT BIND THE LEGISLATIVE ASSEMBLY.

6. PRESIDENT ODUBER SPOKE FAVORABLY ABOUT THE ALCOA PROJECTS WHEN HE RECEIVED AMBASSADOR TODMAN'S CREDENTIALS MARCH 17 AND EXPRESSED THE HOPE THAT IT WOULD BE POSSIBLE TO BRING THE NEGOTIATIONS WITH ALCOA TO A SUCCESSFUL CONCLUSION. ONE OF THE MEMBERS

OF THE ALUMINUM COMMISSION, ICE EXECUTIVE PRESIDENT
ALEX MURRAY, TOLD AN EMBASSY OFFICER MARCH 18 THAT HE
EXPECTS A DEAL TO BE SIGNED WITH THE ALCOA
REPRESENTATIVES AT THE CONCLUSION OF THIS WEEK'S
NEGOTIATIONS. THE EMBASSY WILL KEEP THE
DEPARTMENT INFORMED FOR FURTHER DEVELOPMENTS.
TODMAN

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